

Message Text

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ORIGIN NEA-12

INFO OCT-01 ADP-00 L-03 H-03 CIAE-00 INR-10 NSAE-00 RSC-01

AID-20 EB-11 TRSE-00 CU-04 OMB-01 ABF-01 A-01 IGA-02

PM-07 COME-00 M-03 DODE-00 PA-03 PRS-01 USIA-15 NSC-10

/109 R

DRAFTED BY NEA:AHMEYER:HME

EXT. 21030 7/30/73

APPROVED BY NEA:JJSISCO

H - MR. ANDERSON

AID/ASIA:HREES

EB:MCASSE(INFO)

NEA/INS:DWBORN

TREAS:RHINDLE(SUBS)

NEA/INS:LBLAINGEN

CU/NEA:WHUBBARD (SUBS)

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R 311809Z JUL 73

FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI

C O N F I D E N T I A L STATE 150164

E.O. 11652: GDS

TAGS: EFIN, PFOR, EAID, ETRD, EAGR, IN

SUBJECT: RUPEE NEGOTIATIONS

SUMMARY, RE RUPEE SETTLEMENT, AMBASSADOR KAUL HAS AGAIN BEEN APPRISED OF PROBLEMS WE FACE ON CAPITOL HILL. THE NEED TO HAVE THE FINAL PACKAGE INCLUDE ELEMENTS ATTRACTIVE TO THE CONGRESS WAS STRESSED.

1. AT BDG LUNCHEON JULY 30 IN HONOR BDG FINANCE MINISTER TAJUDDIN AHMED, ASSIST SECT SISCO IN CONVER-
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SATION WITH INDIAN AMBASSADOR KAUL EMPHASIZED SERIOUS DIFFICULTIES WE ENCOUNTERING ON CAPITOL HILL RE PROPOSED RUPEE SETTLEMENT. HE CITED IN PARTICULAR ORDEAL WHICH DEPUTY ASST SEC RODGER DAVIES AND USAID DEPUTY ADMINIS-
TRATOR MACDONALD EXPERIENCED DURING JULY 17 HEARING BEFORE PASSMAN'S SUBCOMMITTEE.

2. ASKED BY SISCO TO ELABORATE DETAILS, AMBASSADOR MEYER WHO WAS SEATED NEXT TO KAUL AT LUNCHEON POINTED OUT THAT BESIDES CONGRESSMAN PASSMAN, REPRESENTATIVES CONTE AND LONG WERE SEVERELY CRITICAL. CONTE POINTED OUT THAT USG SHOULD NOT PART WITH THESE ASSETS FOR IN FORESEEABLE FUTURE USG MIGHT CONCEIVABLY NEED RUPEE FUNDS, EVEN POSSIBLY IN EXCHANGE FOR OIL RESOURCES. LONG STRESSED

THAT WITH INFLATION SO RAMPANT USG MIGHT EASILY NEED MORE THAN DOLS 50,000,000 PRESENT "US USES" IN YEARS AHEAD. WHOLE COMMITTEE WAS DISTURBED THAT USG MIGHT EFFECT SETTLEMENT CONSIDERABLY SHORT OF THAT WHICH CONGRESS WOULD APPROVE, EXPLICITLY OR IMPLICITLY.

3. AMBASSADOR MEYER NOTED THAT IN NUMEROUS CONTACTS WITH CONGRESS WE HAVE FOUND THAT FOREIGN RELATIONS COMMITTEES TEND TO UNDERSTAND NEED FOR REALISTIC SOLUTION TO RUPEE PROBLEM. HOWEVER, REST OF CONGRESS, PARTICULARLY APPROPRIATIONS AND GOVERNMENT OPERATIONS COMMITTEES, HAVE STRONG RESISTENCE TO WRITING OFF DOLS 2 BILLION AND MORE WHEN US HAS SERIOUS ECONOMIC PROBLEMS.

4. NOTING AMBASSADOR MOYNIHAN, MINDFUL OF REALITIES IN INDIA, HAS SUCCEEDED IN SECURING LOWER OVERALL SETTLEMENT FIGURE THAN WASHINGTON AGENCIES HAD DEEMED DEFENSIBLE, AMBASSADOR MEYER TOLD KAUL THAT IF FINAL SETTLEMENT IS TO PREVAIL THE PACKAGE WILL HAVE TO INCLUDE ELEMENTS IRRESISTIBLY ATTRACTIVE TO CONGRESS. AMB MEYER SUGGESTED:

A. MAINTENANCE OF VALUE: IT WAS NOTED THAT GOI IS WRESTLING WITH THIS ISSUE, BUT MOV PROVISION IS OF UTMOST IMPORTANCE.

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B. NEPAL SUPPORT: EQUALLY IMPORTANT IS NEED TO ALLOCATE RUPEES FOR SUPPORT OF OUR ASSISTANCE PROGRAM IN NEPAL, E.G., TRANSHIPMENT COSTS IN INDIA. KAUL OBSERVED THAT THIS SHOULD BE FEASIBLE.

C. ACADEMIC COOPERATION: NOTING HOW UPSET AMERICAN SCHOLARS WERE AT GOI'S INTERRUPTION OF SCHOLARS' PROGRAM IN INDIA, AND THAT HERETOFORE INDIA HAS HAD NO STRONGER LOBBY IN US THAN THE INTELLECTUAL COMMUNITY, AMB. MEYER URGED FORTHCOMING PROGRAM OF CULTURAL COOPERATION BE INCLUDED IN SETTLEMENT. HE NOTED THAT SOME AMERICAN SCHOLARS HAVE ACKNOWLEDGED THAT PAST PROGRAMS WERE PSYCHOLOGICALLY UNPALATABLE TO INDIANS, I.E. SUPERIOR CREATURES MICROSCOPICALLY STUDYING THE "NATIVES". AMBASSADOR KAUL SAID HE STRONGLY FAVORS FULL AND MUTUALLY

BENEFICIAL PROGRAM.

D. CONGRESSIONAL TRAVEL: NOTING THAT NEAR EAST SOUTH ASIA SUB-COMMITTEE CHAIRMAN HAMILTON HAD OBSERVED THAT MOST CONGRESSMEN WERE AWARE OF RUPEE ISSUE PRIMARILY BECAUSE OF COUNTERPART FUND USAGE ON THEIR TRAVELS, AMBASSADOR MEYER MENTIONED IMPORTANCE OF CLEAR PROVISION FOR CONGRESSIONAL AND OTHER OFFICIAL TRAVEL VIA US USES

RUPEES.

E. NON-MILITARY EXPENDITURES: IT WAS ALSO NOTED THAT CONGRESSMAN HAMILTON AND OTHERS HAD STRESSED IMPORTANCE THAT FINAL AGREEMENT PROSCRIBE ANY USE OF RUPEE ASSETS FOR ANYTHING THAT SMACKS OF MILITARY EXPENDITURE, DIRECT OR INDIRECT. FURTHERMORE, AGREEMENT MIGHT WELL MAKE CLEAR THIS PROSCRIPTION.

F. IMAGINATIVE USES: AMBASSADOR MEYER NOTED SPECIAL CALL FROM CONGRESSMAN OGDEN REID WHO HAD VOTED AGAINST WOLFF AMENDMENT (DEPTEL 128547) BUT WHO WANTED TO REGISTER HIS STRONG FEELING THAT USG HAD NOT BEEN SUFFICIENTLY IMAGINATIVE IN UTILIZATION OF RUPEE FUNDS IN PAST. REID HAD MADE CLEAR THAT THIS WILL BE FOCAL POINT OF CONGRESSIONAL SCRUTINY OF ANY AGREEMENT WE REACH.

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G. RURAL ELECTRIFICATION: GOI CENTRAL BANK GOVERNOR JAGANNATHAN WHO WAS SEATED NEARBY MENTIONED RURAL ELECTRIFICATION PROJECTS AS AGREEABLE TO CONGRESS IN PAST. AMBASSADOR MEYER SAID INDEED THEY WERE AND IN ANY RETURN OF RUPEES UNDER PROPOSED AGREEMENT IT WAS IMAGINATIVE PROJECTS OF THAT KIND WHICH SHOULD BE INCLUDED.

H. US EXPORT PROMOTION: NOTING THAT WE ALREADY PROPOSING AGRICULTURAL MARKET PROMOTION AS PART OF SETTLEMENT, AMBASSADOR MEYER REFERRED TO SPECIAL APPEAL HE HAD RECEIVED PREVIOUS WEEK FROM CONGRESSMAN MOORHEAD WHOSE BANKING AND CURRENCY COMMITTEE WAS FOCAL POINT DURING NEGOTIATION OF SOVIET DEBT SETTLEMENT AND EXPECTS TO BE DEEPLY CONCERNED IN RUPEE SETTLEMENT. MOORHEAD'S OFFICE SUGGESTED THAT AGREEMENT INCLUDE PROVISION FOR USAGE OF RUPEES TO PAY DUTIES ON US IMPORTS TO INDIA. MOORHEAD HAS PREVIOUSLY PROPOSED LEGISLATION TO THIS EFFECT AND MIGHT DO SO AGAIN. AMBASSADOR KAUL IMMEDIATELY SAID THIS PROPOSAL WOULD BE MOST DIFFICULT, FOR AMONG OTHER OBJECTIONS, IT WOULD SET PRECEDENT FOR OTHER CREDITORS. IT WAS NOTED THAT MOORHEAD WAS NOT ADVOCATING ALL US IMPORTS BE SO SUBSIDIZED BUT, IN PRACTICE, COULD BE RESTRICTED TO IMPORTS USEFUL FOR ECONOMIC DEVELOPMENT, E.G., GROUND WATER PUMPS. NOTING THAT THIS SPECIFIC CONCEPT MIGHT

HAVE ITS DIFFICULTIES, AMBASSADOR MEYER SAID HE COULD NOT STRESS TOO STRONGLY HOW ANYTHING CONNECTED WITH THE REDRESSING OF OUR TRADE BALANCE COULD HAVE DECISIVE EFFECT IN CONGRESS.

5. AMBASSADOR KAUL RECOGNIZED GENERAL THESIS THAT RUPEE PACKAGE MUST MAKE UP IN ATTRACTIVENESS FOR WHAT IT LACKS

IN MAGNITUDE. HE EXPRESSED UNDERSTANDING OF CONGRESSIONAL RESISTENCE AND INDICATED THAT ASIDE FROM SUBSTANCE OF AGREEMENT, HIS EMBASSY WOULD DO WHAT IT COULD IN HELPING DEVELOP UNDERSTANDING ON CAPITOL HILL. HE AGREED THAT THE TASK WOULD BE AS DELICATE AS IT IS DIFFICULT. ROGERS

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